Nova Scotia

ANNUAL REPORT

for the year ending
December 27, 1986

Nova Scotia Dairy Commission

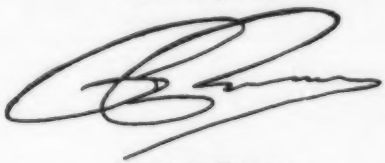
His Honour
The Honourable Alan R. Abraham, C.D.
Lieutenant-Governor of the Province of Nova Scotia
Government House
Halifax, Nova Scotia

Dear Sir:

I have the honour to transmit herewith the Annual Report of the Nova Scotia Dairy Commission for the year 1986.

I am, Your Honour,

Yours very truly,



Roger S. Bacon

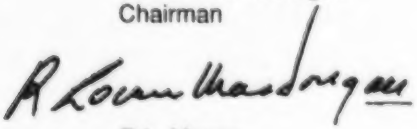
The Honourable Roger Bacon
Minister of Agriculture and Marketing
P.O. Box 190
Halifax, Nova Scotia
B3J 2M4

Sir:

We havethe honour to submit herewith the third Annual Report of the Nova Scotia Dairy Commission for the fiscal year ending December 27th, 1986, pursuant to the provisions of Section 187 of the Agriculture and Marketing Act.

Respectfully submitted,

R. Lorne MacDougall
Chairman



R.L. Mason
Manager

NOVA SCOTIA DAIRY COMMISSION
ANNUAL REPORT

Year Ending **December 27, 1986**

Commission Members
R. L. MacDougall, Q.C.—Chairman
D. L. Harlow—Member
R. S. Johnstone—Member
J. M. Killawee—Member
J. M. MacConnell—Member

Staff
R. L. Mason—Manager
P. M. Green—Accountant
T. G. Johnson—Accounting Clerk
E. L. Faulkner—Secretary

Introduction

Controls related to milk date back to 1933 in Nova Scotia. The scope of control has greatly expanded since that time, involving a succession of several administrative bodies. Since June 1, 1967 the Nova Scotia Dairy Commission has been responsible for administering Part XVIII of the Agriculture and Marketing Act.

The Comission succeeded the Board of Commissioners of Public Utilities which took over responsibilities from the Dairy Arbitration Commission in 1945. From 1957 to 1967 pricing of milk on Cape Breton Island, and in Antigonish and Guysborough counties was under the control of the Cape Breton Milk Marketing Board.

The Nova Scotia Dairy Commission is composed of five members appointed by the Governor in Council to serve on a part-time basis for five years, except for the initial appointments which were arranged so as to have the term of one member expire each year. One member is appointed from nominees of the Nova Scotia Milk Producers Association and Cream Producers Association of Nova Scotia; one member is appointed from nominees of the milk processors in Nova Scotia; and three members are in no way actively associated with the dairy industry.

Mr. Roy Johnston, the producer representative was reappointed for a five-year term in June 1986. There were no staff changes during the year.

Objectives

The overall objective of the Commission is to provide efficient producers of milk and cream with a fair price for their product and at the same time ensure consumers of an adequate supply of quality dairy products at reasonable prices.

Activities of the Commission during the past year centred on the following:

— setting milk prices
— licensing milk producers, processors, jobbers, and bulk-milk transporters
— conducting plant audits
— compiling industry statistics
— providing regulations to ensure milk quality
— administering the Market Sharing Quota Program
— providing a fluid quota system
— administering a price equalization system
— setting bulk haulage rates
— mediating disputes within the industry
— providing regulations governing milk production, transportation, and processing.

In addition to close consultation with interested parties in the dairy industry of Nova Scotia, the Commission maintains contact with producers at the national level through Dairy Farmers of Canada and with processors through Atlantic Dairy Council. The Commission is also a member of the International Association of Milk Control Agencies.

Milk Production

Milk and cream consumed in liquid form is referred to as fluid milk, while milk used for all other purposes is called industrial milk.

All industrial milk production in Canada comes under a national supply management program which, through a system of quotas, subsidies, and levies, exerts a tremendous influence over the volume of industrial milk produced. Because there is little yearly change in requirements for fluid milk, the effect of the supply management program has considerable impact on total milk production in Nova Scotia.

During 1986, 13 farms ceased milk production, while 6 new farms started in business, continuing a long-standing trend toward fewer and larger dairy farms.

Table 1

TOTAL MILK SHIPMENTS TO PROCESSORS

	Quantity Litres	Licensed Fluid Milk Farms
1986	175,015,815	587
1985	168,299,565	594
1984	172,119,237	615
1983	164,740,598	630
1982	171,115,541	645
1981	170,185,446	656
1980	168,527,400	675

During December, 15 farms converted from farm-separated cream to industrial milk production. They became licensed as Industrial Milk Producers. Production from these farms amounted to 464,000 litres.

Cream Production

Farm-separated cream shipments to the three creameries in Nova Scotia increased marginally in 1986. However production will decrease in future as 14 cream producers converted to shipping whole industrial milk towards year end, and more are expected to convert in 1987.

The national supply-management program known as the Market Sharing Quota program applies to cream producers as well, and the limited availability of quota exerts considerable restraint on production.

Prices for farm-separated cream are determined by Scotsburn Co-op Services Ltd., based on support prices announced by the federal government. Cream prices increased in August by 7¢ per pound to $2.39 for Special Grade and $2.33 per pound for First Grade.

Table II
CREAM SHIPMENTS TO NOVA SCOTIA PROCESSORS

		Residency of Producers as of August		
Year	**Butterfat (kg)**	**N.S.**	**N.B.**	**Total**
1986	225,164	171	12	183
1985	219,247	181	14	195
1984	223,421	188	14	202
1983	224,934	202	15	217
1982	236,823	243	14	257

Milk Utilization

Fluid milk sales in Nova Scotia increased by less than 1 per cent in 1986. The continuing decline in consumption of standard whole milk was more than offset by increases in skim and partly skim milk sales. According to figures reported by Statistics Canada, Nova Scotia continues to lead all provinces in Canada in per capita consumption of fluid milk.

Fluid milk shipments to Newfoundland declined by 8.4 per cent due to increased production by dairy farmers in Newfoundland. This trend is expected to continue, moderated to some extent by increased per capita consumption of fresh milk in that province.

Total fluid milk utilization increased by .2 per cent from 115,795,731 litres in 1985 to 116,012,345 litres. Because of much higher milk production in 1986 the fluid utilization dropped to 66.3 per cent of total milk production from 68.8 last year.

Except for a small volume of milk sold to Prince Edward Island and New Brunswick in an industrial classification, milk not used for fluid products was processed into Ice Cream and Mixes, Cottage Cheese, Yoghurt, Skim Milk Powder, Cheddar Cheese, Gouda Cheese, Feta Cheese, Whey Powder, and Condensed Whey.

Table III
PRODUCT SALES WITHIN NOVA SCOTIA

	1986 (Litres)	1985 (Litres)	Increase/ Decrease (%)
Standard Milk	42,629,230	45,408,190	-6.1
Partly skimmed milk	49,442,074	46,562,956	+6.2
Skim milk	7,248,914	6,600,631	+9.8
Buttermilk	265,182	277,611	-4.5
Chocolate drink	4,452,895	4,346,225	+2.5
Blend & coffee cream	3,012,587	2,912,405	+3.4
Whipping cream	467,445	474,976	-1.6
Sour cream	232,284	219,572	+5.8
Egg nog	433,490	383,269	+13.1
Totals	108,184,101	107,185,835	+.9

Milk Pricing

In August the Commission ended the 1983 moratorium on escalation of rebates and discounts by processors. The wholesale price fixed by the Commission in December 1985 remained in effect except that new regulations concerning maximum discounts, expiry date of contracts, and placing of dairy-owned equipment came into force.

Subsequently, a comprehensive study of processor operating margins on fluid milk was undertaken by Commission staff and Doane Raymond Management Consultants. As a result of the study, the Commission increased the wholesale selling price for milk effective December 28.

Table IV
COMMISSION-FIXED WHOLESALE AND MINIMUM RETAIL PRICE —STANDARD MILK (3.25% BUTTERFAT)

	Nova Scotia Mainland	Cape Breton Island	Effective Date
4-litre pouch pack	$4.28	$4.32	December, 28, 1986
2-litre carton	2.16	2.18	
4-litre pouch pack	4.08	4.12	December 29, 1985
2-litre carton	2.06	2.08	
4-litre pouch pack	3.92	3.96	May 26, 1985
2-litre carton	1.98	2.00	
4-litre pouch pack	3.76	3.80	August 26, 1984
2-litre carton	1.90	1.92	

Prices paid to producers for all classifications of milk increased in 1986. Class I and II prices are set by the Commission, Class III by Farmers Co-operative Dairy, and out-of-province sales by the marketplace. The butterfat differential for all uses of milk increased from 48¢ to 50¢ per hectolitre effective December 28, 1986.

Class I is milk sold within Nova Scotia in liquid form. Class III (a) is milk to cheddar cheese while Class III (b) is primarily for skim milk powder and butter. The Class II price is paid to producers for milk used within the province for purposes other than class I or III

Results of a fluid milk cost model, maintained by the Farm Management Division of the Nova Scotia Department of Agriculture and Marketing since 1979, continued to be used as a prime source of information by producers and the Commission in considering a price increase for Class I milk. A $2.29 increase per hectolitre was approved by the Commission

effective December 28, 1986.

Changes in the federal support prices for butter and skim milk powder resulted in Class II and III milk prices increasing by 80¢ per hectolitre in August.

The target return level for industrial milk production as calculated by the federal returns adjustment formula rose from $45.68 to $46.30. In addition, 18¢ per hectolitre was added to assist in financing carrying charges associated with the marketing of butter which the federal government ceased paying as of March 31.

Table V
BASIC PRODUCER PRICES PER HECTOLITRE OF MILK[1]

	Nova Scotia Mainland	Cape Breton Island	Effective Date
Class I	$57.70	$58.67	December 28, 1986
	55.41	56.38	December 29, 1985
	53.66	54.63	May 26, 1985
	51.41	52.38	August 26, 1984
Class II	41.03	41.03	August 10, 1986
	40.23	40.23	August 25, 1985
	39.20	39.20	August 26, 1984
	38.38	38.38	April 16, 1984
	37.73	37.73	January 16, 1984
Class III (a)	38.84	38.84	August 1, 1986
(b)	37.34	37.34	
(a)	38.04	38.04	August 16, 1985
(b)	36.54	36.54	
(a)	37.01	37.01	August 1, 1984
(b)	35.51	35.51	
(a)	36.19	36.19	April 1, 1984
(b)	34.69	34.69	
(a)	35.54	35.54	January 1, 1984
(b)	34.04	34.04	

1. Basis 3.6 kilograms of butterfat per hectolitre

Table VI
FEDERAL DAIRY PRODUCT SUPPORT PRICES

Skim Milk Powder	Butter	Target Return Level	Effective Date
$2.978/kg	$5.035/kg	$46.30/hl	August 1, 1986
2.922	4.929	45.68	August 16, 1985
2.85	4.784	44.65	August 1, 1984
2.79	4.71	43.83	April 1, 1984
2.74	4.60	43.18	January 1, 1984

Price Equalization

The administration of the price equalization system, which began in April 1985, ran smoothly during the year. A series of eight four-week periods and four five-week periods was used for calculating utilization and producer payments.

Reports on the utilization of milk at each plant are submitted to the Commission by the sixth day after each period ends. From this information the Commission determines the percentages of fluid quota shipments to be paid to all producers at a fluid price and the blended values for fluid and non-fluid usage.

Producers receive payment by the thirteenth day following the period end. By using provincial average values, plants that overpay producers receive reimbursement by the Commission from plants that pay producers less.

The total amount of fluid quota issued to producers was set by the Commission upon recommendation by a Producers Advisory Committee. The quota serves as a guide to total plant requirements for milk and also a means of sharing the volume of milk to be paid at a fluid price.

Total issued fluid quota was increased by 1 per cent in April. It was also agreed to change the fluid quota year to coincide with the Federal Market Sharing Quota year, namely from August to July.

Considerable discussion took place during the year on allowing fluid quota and market sharing quota to be sold through a provincial quota

exchange similar to systems operating in other provinces. Another proposal would change the method of allocating increases in fluid quota to producers. At year end these issues remained unresolved.

Table VII
SUMMARY OF PRICE EQUALIZATION VALUES

Month	Payout % of Fluid Quota	Fluid Value: Cape Breton Island & Yarmouth County [1]	Fluid Value: Other Areas [1]	Non Fluid Blend Value [1]
January	84.55	$55.61	$54.79	$38.31
February	87.53	55.60	54.78	38.52
March	85.53	55.60	54.79	38.39
April	84.49	55.65	54.83	38.34
May	81.42	55.79	54.96	37.81
June	79.21	55.90	55.05	37.65
July	76.72	56.00	55.16	37.61
August	79.08	55.78	54.95	38.41
September	83.01	55.74	54.91	38.75
October	85.41	55.59	54.78	38.89
November	86.28	55.64	54.82	39.40
December	85.95	55.64	54.82	38.95

1. Price per hectolitre of milk, 3.6 kilograms of butterfat.

The total payment to fluid milk producers by processors in 1986 was $87,165,957. This compares with $81,493,963 in 1985 and $78,643,268 in 1984.

Table VIII
AVERAGE VALUE PER HECTOLITRE PAID TO FLUID MILK PRODUCERS

	1986	1985	1984
January	$50.25	$47.07	$43.15
February	50.66	47.17	45.36
March	50.31	47.60	45.16
April	50.06	47.45	45.25
May	49.15	47.48	45.06
June	48.18	48.12	44.15
July	48.09	48.38	44.33
August	48.86	48.42	45.17
September	49.36	49.12	46.69
October	50.73	49.90	47.48
November	51.73	50.86	48.07
December	50.84	49.93	47.50
Average for the year	49.80	48.44	45.77
Average butterfat test	3.68 kg	3.71 kg	3.72 kg

Bulk Milk Haulage Rates

An in-depth study by Commission staff and Doane Raymond Management Consultants on haulage costs for milk from farms to processors and inter-plant shipments was completed early in 1986.

The Commission set maximum rates per hectolitre for milk transported from farms to processors and approved a series of rates for milk moving to the cheese plant in Truro from various points throughout the province. It is the intention of the Commission to review the rates on an annual basis.

Table IX

Transporter	Maximum Rate per Hectolitre Effective April 27, 1986	Maximum Rate per Hectolitre Effective May 17, 1984
Scotsburn Co-op Services	$1.93	$1.75
Farmers Co-op Dairy Ltd.	1.89	1.75
Cook's Dairy Farm Ltd.	1.19	1.07
Rudy Burghardt	1.33	1.19
Curtis Fisher	1.49	1.44

Market-Sharing Quota Program

The Canadian Supply Management Program for industrial milk, known as the Market Sharing Quota (MSQ) system, is highly regarded throughout the world for its effectiveness in regulating supply to demand because of tremendous stockpiles of dairy products in most dairy-producing countries. Total industrial milk production in Canada for the MSQ year ending in July was 100.6 per cent of total quota.

Total forecasted Canadian consumption of dairy products based in terms of butterfat plus a small quantity of product sold in traditional export markets forms the basis of the total MSQ for a year.

In meeting the total demand for butterfat a small surplus of skim milk powder is produced. The cost of disposing of this product on the world market by the Canadian Dairy Commission is borne by producers in the form of an in-quota levy. Milk production in excess of quota is also sold by the Canadian Dairy Commission, and such costs are recovered as over-quota levies. Deliveries within MSQ are eligible for a direct subsidy payment by the Canadian Dairy Commission to producers of $1.675 per kilogram of butterfat. This amount has remained unchanged since 1981.

Table X
NATIONAL MARKET SHARING QUOTA ENTITLEMENT AND UTLIZATION
AUGUST 1985–JULY 1986
(Millions of Kilograms of Butterfat)

Province	Date of Entry	Authorized MSQ	Utilization Production	%
Nova Scotia	April 1, 1974	2.107	2.175	103.2
New Brunswick	April 1, 1974	2.201	2.200	99.9
Prince Edward Island	December 1, 1971	3.160	3.178	100.5
Quebec	December 1, 1970	80.018	79.412	99.2
Ontario	December 1, 1970	52.135	53.465	102.4
Manitoba	July 1, 1972	6.516	6.472	99.3
Saskatchewan	July 1, 1972	4.337	4.286	98.8
Alberta	April 1, 1972	11.186	11.360	101.5
British Columbia	October 1, 1973	6.184	6.310	102.0
Total		167.844	168.858	100.6

The national MSQ for the 1985–86 year was set at 167,844,000 kilograms of butterfat, down by 1 per cent from the previous year. Although Nova Scotia's share was 2,107,000 kilograms, only 2,080,000 kilograms were issued to producers, reflecting the level of estimated subsidy entitlement. In-quota and over-quota levy rates were calculated from the base of issued quota.

Nova Scotia MSQ milk and cream production dropped slightly from the previous year but not proportionally to the reduction in issued quota. As a result, Nova Scotia had the highest proportional utilization of quota in Canada at 103.2 per cent.

The total amount of in-quota levy paid by producers dropped from $3,635,274 in 1984–85 to $3,120,602, reflecting a combination of a lower volume of milk within the in-quota category and lower levy rates. Conversely, the over-quota levy assessment increased sharply from $468,618 in 1984–85 to $963,939 due to both higher over-quota levy rates and a large proportion of shipments over issued quota.

Subsequent to the end of the fiscal year, the Canadian Dairy Commission announced that a surplus of $26,000,000 in the export levy account would be refunded to the provinces. A decision on the most equitable method of distributing the $326,419 to Nova Scotia producers had not been made by the end of December.

Table XI
NOVA SCOTIA MSQ PRODUCTION
(Kilograms of Butterfat)

	1985–86	1984–85	Change	%
Fluid Producers	1,954,683	1,957,603	−2,920	.1
Industrial Producers	—	6,903	−6,903	
Cream Producers	220,065	225,471	−5,406	2.4
Total	2,174,748	2,189,977	−15,229	.7

Table XII
SUMMARY OF LEVY AND SUBSIDY PAYMENTS 1985–86

	In-Quota Levy	Over-Quota Levy	Total Levy	Subsidy Payments
Fluid				
Producers	$3,120,602	$958,567	$4,079,169	$3,117,155
Cream				
Producers	—	5,372	5,372	366,359
Total	3,120,602	963,939	4,084,541	3,483,514

The total amount of MSQ isued to producers in Nova Scotia for the 1986–87 year was virtually unchanged from the year before at 2,081,000 kilograms of butterfat. Cream producers were allocated 10.4 per cent of the provincial entitlement compared to 10.8 per cent the previous year, in part recognition of the number of cream producers who had transferred to fluid milk production. The remaining block of MSQ was aliocated to fluid milk producers in terms of litres of milk to assist producers in following utilization on a monthly basis.

On the basis of issued MSQ, fluid milk producers are subject to a levy of $5.32 per hectolitre on deliveries up to 97.69 per cent of MSQ, a rate of $30.70 per hectolitre on deliveries between 97.69 per cent and 101.3 per cent and $38.00 per hectolitre on deliveries over 101.3 per cent.

Cream producers do not pay an in-quota levy since they retain their skim milk at the farm. They do pay an over-quota levy of $4.00 per kilogram.

All levy rates, provincial MSQ entitlement, and projected subsidy levels are subject to review and change during the year.